



Source: www.skylit.com

MACAU



Source: exxon.com, World Fact Book

“ALL IN!”

<u>Company</u>	<u>Exchange</u>	<u>Symbol</u>	<u>Price (11/5/04)</u>
Kerzner International Ltd.	NYSE	KZL	\$54.31
Las Vegas Sands	NYSE*	LVS*	*Filed for Initial Public Offering (IPO)
MGM Mirage	NYSE	MGG	\$59.62
Wynn Resorts Ltd.	NASD	WYNN	\$63.01

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- Please Refer to Important Disclosures on the Last Page of this Report -

Introduction – Notes From My Visit

Macau, located in Southeastern China, is one of the largest and fastest growing gaming markets in the world. We visited Macau in October 2004, and witnessed an impressive amount of activity (gaming, construction, tourism). As the market continues to develop into the Las Vegas of the East, we look for U.S. casino operators to capitalize on the opportunity presented by Macau.

Macau Basics

Macau was colonized by the Portuguese in the 16th century. Through an agreement signed by China and Portugal in 1987, Macau became the Macau Special Administrative Region (SAR) in December 1999. The Chinese government has promised that, under its "one country, two systems" formula, China's socialist economic system will not be practiced in Macau, and that Macau will enjoy a high degree of autonomy in all matters except foreign and defense affairs for the next 50 years. Macau is approximately 25.4 square kilometers, or roughly 1/10th the size of Washington D.C., and has a population of approximately 445,000.

Macau and Gaming

Gambling has been legal in Macau since 1847. Macau is the only market in China that allows legalized gambling. The first gaming monopoly in Macau was awarded in 1937, to Tai Heng Company. In 1962, Sociedade de Turismo e Diversoes de Macao (STDM), a company controlled by Dr. Stanley Ho, a Macau business mogul, was granted a monopoly on the Macau casino industry which lasted until 2001. In order to develop Macau into a world-class, modern, competitive and internationally recognized gaming market, the government issued three gaming licenses, called concessions, in 2002. The three companies receiving concessions were:

- Sociedade de Jogos de Macau (SJM), controlled by Dr. Stanley Ho, whose concession is valid from April 1, 2002 through March 31, 2020
- Wynn Resorts, whose concession is valid from June 27, 2002 through June 26 2022
- Galaxy Casino, whose concession is valid from June 26, 2002 through June 27, 2022

Location, Location, Location

Macau is strategically located in Southeast China. It shares a border with China's wealthy Guangdong province, which has a population of over 90 million. Macau is a mere 1-hour hydrofoil ferry ride from Honk Kong, which has a population of 6.9 million. In addition, it is estimated that:

- 100 million people live within a 3-hour drive from Macau
- 1.0 billion people live within a 3-hour flight from Macau
- 3.1 billion people live within a 5-hour flight from Macau

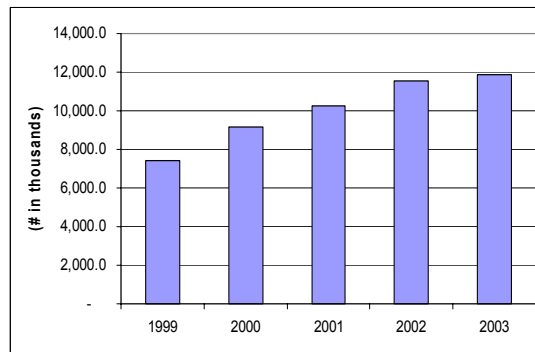
In short, Macau is arguably blessed with better demographics than any gaming market worldwide.

Visitation Growing Rapidly

Until recently, Mainland Chinese were only permitted to visit Macau as part of a tour group. However, China has relaxed visitation restrictions to Macau, and now Chinese from certain urban centers and economically developed areas are able to visit Macau without joining a tour group. As a result, visitation to Macau has risen, as the table below illustrates.

Table I

**MACAU
TOTAL ANNUAL VISITATION**



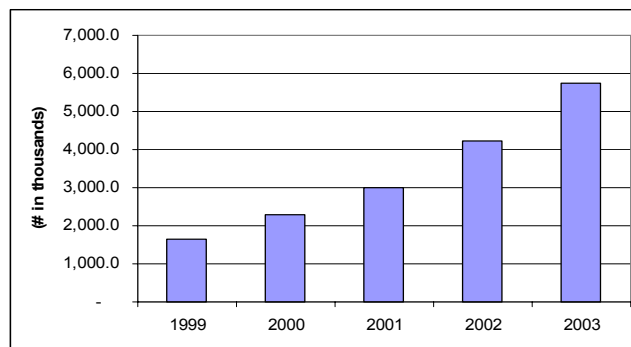
Source: Macau Statistics and Census Service

Macau attracted 11.9 million visitors in 2003 compared to 11.5m the year before. Visitation to Macau has grown at a compound annual growth rate (CAGR) of 14% over the past five years. Through the first nine months of 2004, Macau attracted 12.2 million visitors, compared to 8.4 million in the first nine months of 2003.

Visitation from Mainland China is fueling this growth. Visitation from Mainland China to Macau has grown at a 120% CAGR over the last five years, reaching 5.7 million visitors in 2003. Mainland Chinese now account for nearly 60% of the visitors to Macau, compared to about 20% five years ago. Visitors from Hong Kong account for 31% of visitors, while visitors from Taiwan and other Southeast Asian countries account for 7.5% and approximately 1.5%, respectively.

Table II

**MACAU
ANNUAL VISITATION FROM MAINLAND CHINA**



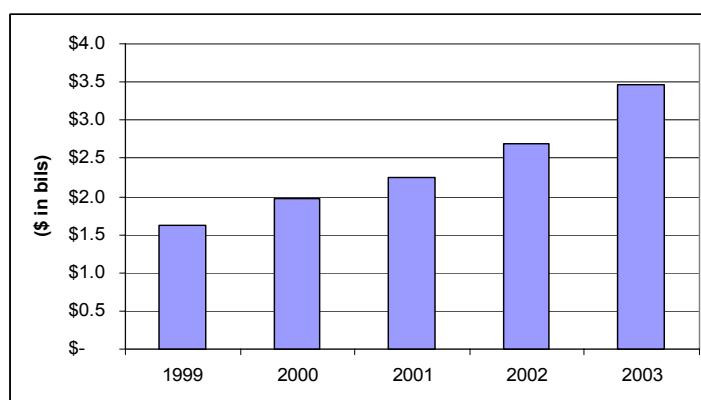
Source: Macau Statistics and Census Service

Gaming Overview

In addition to relaxing travel restrictions, the Chinese government has increased the amount of renminbi (Chinese currency) Chinese citizens are able to bring into Macau. The confluence of relaxed travel and currency restrictions has resulted in an explosion in the Macau gaming market. As the table below illustrates, the gaming market in Macau has grown from \$1.6 billion in 1999, to \$3.5 billion in 2003. In 2004, gaming revenue should approach \$5.0 billion, making Macau a larger market than the Las Vegas Strip and Atlantic City.

Table III

MACAU ANNUAL GAMING REVENUE



Source: Gaming Inspection & Coordination Bureau of Macau

Baccarat is the most popular game in Macau by far, accounting for almost 90% of the market. Blackjack is the most popular U.S. style casino game. Slot machines, which account for most of the gaming revenue in U.S. markets, account for less than 2% of the gaming revenue in Macau. The slot product in Macau is old, and often does not have Chinese characters. This is likely to change as U.S. casino operators enter the market and offer newer machines. Over time, the development of the slot market in Macau is likely to be a significant driver of casino growth and profitability.

Existing Casinos

As the table below illustrates, most of Macau's existing casinos are small. Many have fewer than 30 table games and less than 100 slot machines. This compares to the typical Atlantic City or Las Vegas Strip casino, which can easily have over 100 table games and over 1,000 slot machines. SJM owns all but 2 of Macau's existing casinos.

Table IV

MACAU CASINOS

Property	Table Games	Slot Machines	Hotel Rooms	Owner
Casino Lisboa	146	107	1,000	SJM
Casino Macau Palace	12	51	-	SJM
Casino Marina	20	37	312	SJM
Casino Taipa	8	10	347	SJM
Diamond Casino	6	32	-	SJM
Galaxy Waldo Hotel & Casino	38	100	161	Galaxy
Jai Alai Casino	59	208	-	SJM
Kam Pek Casino	24	71	-	SJM
Kingsway Hotel & Casino	8	20	410	SJM
Legend Club	10	108	-	SJM
Mandarin Oriental Casino	11	59	437	SJM
MJC Casino and Grandview Hotel	13	-	404	SJM
New Century Casino	34	105	554	SJM
<u>Sands Macau</u>	<u>277</u>	<u>405</u>	<u>51</u>	<u>Las Vegas Sands</u>
Total	666	1,313	3,676	

Source: CasinoCity.com

Macau, the Las Vegas Strip & Atlantic City: A Comparison

The following table compares Macau with the two largest gaming markets in the United States; the Las Vegas Strip and Atlantic City. Note that essentially all of Macau’s gaming revenue is generated by table games. In addition, Macau’s daily win per table game is significantly higher than that of the Las Vegas Strip or Atlantic City.

Table V

MACAU MARKET COMPARISON						
<u>Metric -2003</u>	<u>Macau</u>		<u>Las Vegas Strip</u>		<u>Atlantic City</u>	
Casinos		12		44	12	
Slot Machine Revenue (\$ in bils)		nm	\$	2.6	\$	3.3
Table Game Revenue (\$ in bils)	\$	3.5	\$	2.1	\$	1.2
Total Gaming Revenue (\$ in bils)	\$	3.5	\$	4.7	\$	4.5
Table Games		351		2,595		1,370
Slot Machines		808		57,548		42,378
Table Game Win Per Day	\$	27,319	\$	2,212	\$	2,322
Slot Machine Win Per Day		nm	\$	122	\$	215
Hotel Rooms		9,185		72,000		14,253
Annual Visitors (in mils)		11.9		35.5		32.2

Source: Gaming Inspection & Coordination Bureau of Macau, Macau Statistics and Census Service, New Jersey Casino Control Commission, Atlantic City Convention Center & Visitors Authority, Nevada Gaming Control Board, Las Vegas Convention & Visitors Authority

U.S. Operators in Macau

Wynn Resorts and Las Vegas Sands are the two U.S.-based casino operators currently authorized to conduct gaming in Macau. We expect MGM Mirage will soon follow suit.

Wynn Resorts – Wynn Resorts, located in Las Vegas, Nevada, entered into a 20-year concession agreement with the government of Macau in June 2002. WYNN expects to open its first property in Macau in the third quarter of 2006. The \$700 million property is expected to include a casino with 200 table games and 350 slot machines and a 600-room hotel. WYNN’s concession agreement allows it to grant subconcessions to other companies allowing them to conduct gaming in Macau, subject to government approval. We fully expect WYNN to issue a subconcession over the next few years, as well as to develop at least one other property in Macau on its own.

Las Vegas Sands –Las Vegas Sands, located in Las Vegas, Nevada, was originally partnered with Galaxy Casinos, which was awarded one of the three original gaming concessions in 2002. However, that partnership split, and Las Vegas Sands was awarded a subconcession later that year. As such, Las Vegas Sands is the sole subconcessionaire in Macau. The company opened the Sands Macau in May 2004. Results so far have been phenomenal, with the property generating \$46 million in EBITDA in its first 2 ½ months of operation. The company plans to open the Macau Venetian Casino Resort in the first quarter of 2007 on an area of reclaimed land in Macau called Cotai. The Macau Venetian is expected to be part of a development sponsored by the company called the "Cotai Strip", which will include six other hotel developments in addition to the Macao Venetian Casino Resort. The other six hotel developments on the Cotai Strip will be developed, constructed and financed by independent lodging companies and investor groups, with the Las Vegas Sands expected to lease and operate the casinos. The Las Vegas Sands has entered into six non-binding letters of intent for these hotel developments.

MGM Mirage – In June 2004, Las Vegas-based MGM Mirage announced it had entered into a joint venture agreement with Pansey Ho Chiu-king to develop, build and operate a casino hotel in Macau. The agreement is subject to entry into a subconcession agreement with SJM, the holder of a gaming concession in Macau. Pansey Ho is the daughter of Dr. Stanley Ho, who controls SJM. The casino will feature the “MGM Grand” name and could open by early-2007 and cost \$700 million.

Other Potential Operators

Given Macau's appeal, we believe many casino operators are looking to enter the market. This, coupled with what we believe is the government's desire to develop the market into a world-class gaming destination, leads us to believe that other casino/resort developers and operators will enter the market over the next few years.

Kerzner International

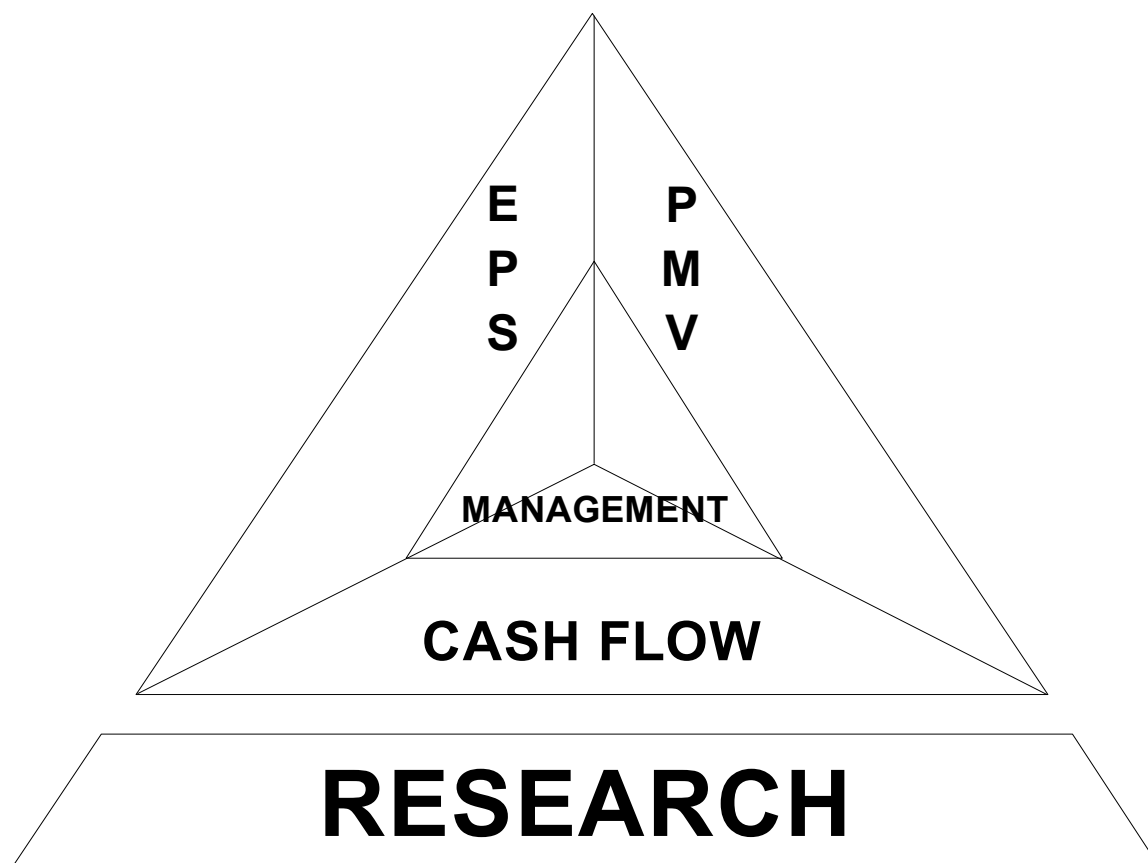
One of the prime candidates, in our view, is **Kerzner International**, given its worldwide reputation as a successful developer of destination casino resorts. KZL owns Atlantis, Paradise Island, a 2,300-room ocean themed resort casino located in The Bahamas. KZL also has an ownership interest in and/or manages nine luxury resorts primarily operated under the One&Only brand name. In addition, KZL receives fee income from the Mohegan Sun, a Native American casino located in Connecticut. KZL has also announced a number of other growth opportunities, including developing and managing a luxury resort in Dubai, United Arab Emirates, and three potential casino development projects in the United Kingdom.

Table VI

CASINO OPERATOR COMPARABLES ANALYSIS

<i>(in millions, except per share data)</i>		Kerzner International		Las Vegas Sands		MGM Mirage		Wynn Resorts	
		<i>(KZL-NYSE)</i>		<i>(LVS-NYSE)</i>		<i>(MGG-NYSE)</i>		<i>(WYNN-NYSE)</i>	
12-Month High/Low		\$ 54.85	\$ 34.62	-	-	\$ 59.78	\$ 34.05	\$ 63.65	\$ 19.60
Capitalization		FYE 12/31		FYE 12/31		FYE 12/31		FYE 12/31	
Fully Diluted Shares Outstanding		35.7		-		146.5		101.7	
Price as of	11/5/04	\$ 54.31		-		\$ 59.62		\$ 63.01	
Equity Market Capitalization		\$ 1,940.4		\$ -		\$ 8,733.8		\$ 6,407.5	
Total Debt and Preferred Stock		718.1		1,802.4		5,647.2		753.0	
Cash and Equivalents		(433.7)		(1,033.9)		(355.6)		(603.4)	
Minority Interest		-		-		-		-	
Other/Hidden Assets		(80.7)		-		-		-	
Total Enterprise Value (TEV)		\$ 2,144.1		-		\$ 14,025.4		\$ 6,557.0	
<i>Consolidated:</i>									
Net Revenues	2005P	\$ 657.0	2.8%	-	-	\$ 4,514.0	7.9%	\$ 566.7	-
	2004E	639.1	13.8%	-	-	4,182.2	7.0%	-	-
	2003A	561.3		\$ 650.6		3,908.8		-	-
EBITDA	2005P	\$ 170.4	25.9%	-	-	\$ 1,454.8	32.2%	\$ 173.1	-
	2004E	164.3	25.7%	-	-	1,350.7	32.3%	-	-
	2003A	150.4	26.8%	\$ 238.6	36.7%	1,135.2	29.0%	-	-
EPS	2005P	\$ 2.71		-	-	\$ 2.75		\$ 0.02	-
	2004E	\$ 2.50		-	-	\$ 2.45		-	-
	2003A	\$ 2.30		-	-	\$ 1.56		-	-
TEV/EBITDA	2005P	12.6	x	-	x	9.6	x	37.9	x
	2004E	13.0		-		10.4		-	
	2003A	14.3		-		12.4		-	
P/E	2005P	20.0	x	-	x	21.7	x	2,685.9	x
	2004E	21.7		-		24.4		-	
	2003A	23.6		-		38.2		-	

Source: Company data and Gabelli & Company, Inc. estimates



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